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Two new models of the Fuxing high-speed train are parked at China State Railway Group Co's branch in Xi'an, Shaanxi province, on December 15. YUAN JINGZHI / FOR CHINA DAILY

Economic hopes tied to two-pronged approach

Plan combines weighty role of domestic consumers with continued opening-up

By ANDREW MOODY

China's new dual-circulation development paradigm will provide the engine for the country's future economic success and could herald a new era of globalisation, experts say.

The paradigm, which was first proposed in May, combines the forces of China's domestic economy and international economic engagement, and is set to be central to China's 14th Five-Year Plan (2021-25).

Stephen Roach, a US economist and senior fellow at the Jackson Institute for Global Affairs at Yale University, called it a "very important strategic concept".

"It underscores China's focus on both the internal and external elements of its growth strategy. Success will be measured on how well these two sources of support work together rather than in isolation from one another."

China's dual circulation paradigm, in which the domestic economy is the mainstay and the domestic and international economies complement each other, has attracted much international interest and comment.

At its core, it acknowledges the importance of domestic consumption in the next phase of the country's economic growth. China is set to have 600m middle-income consumers by the middle of this decade, according to the management consultants McKinsey & Co. The new development paradigm also emphasises the need for greater indigenous technological innovation and the strengthening of domestic supply chains.

At the same time, the paradigm recognises the importance of the international economy in China's development, including further opening-up of the economy to foreign companies.

Zhu Ning, a professor of finance and also deputy dean at the Shanghai Advanced Institute of Finance, said the new paradigm is right to recognise the role of domestic consumption in China's future development.

"Consumption now contributes more than half of China's economic growth, and the domestic market is growing faster than that of many developed economies."

However, he added: "The dual circulation aspect of this has to be borne in mind at all times. It would be counterproductive if China gave up on opening-up and solely focused instead on its domestic economy."

Hao Hong, managing director and head of research at BOCOM International Securities in Hong Kong, said the paradigm recognises a big shift taking place in China's economy.

"It is about the changing role of China's production capacity and the need to move it to satisfy the new domestic demand and not just that from abroad. You can see this already with car production and the manufacture of iPhones. Increasingly they are being made in China to meet domestic demand."

Jin Keyu, an associate professor of economics at the London School of Economics, said China has an advantage similar to that of the United States with the size of its domestic market.

"China enjoys the advantage of having a very large domestic economy, so that much of its growth can be generated internally. This is also the case in the United States."

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>
> **Stephen Roach,** economist and senior fellow at the Jackson Institute for Global Affairs at Yale University

Louis Kuijs, head of Asia for Oxford Economics, an economics research consultancy, said it is thus important for China to reinforce its domestic supply chains and develop more of its own technology.

"Achieving self-sufficiency in technology is an important part of the new policy agenda. The challenge for China is to make this sustainable. If it is too much State-directed and attempted using subsidies, it will not be so easy to achieve."

Tom Rafferty, regional director for Asia for The Economist Intelligence Unit, a global business intelligence organisation, said China is not unique in Asia in wanting to be more self-sufficient.

India has launched a "self-reliance" movement to address its supply chain vulnerabilities, and Indonesia is following import substitution policies to support domestic industry, he said.

"In China the emerging focus on self-sufficiency comes amid strained relations with the US. We see these concerns translating into greater focus on bolstering domestic demand, especially household spending, while efforts to move up the value chain will create opportunities in the high-end technology, energy and healthcare sectors."

He believes that one trend that may result from this could be foreign companies having to localise their business operations in China and in Asia generally.

"It will mean more investment in on-the-ground research and development, expansion in local staffing and operations, and the cultivation of deeper regional partnerships and collaborations. Doing this, while managing calls for 're-shoring' in home markets, will require significant strategic and political dexterity," he said.

Jing Ulrich, vice-chairman of global banking and Asia-Pacific at investment bank JP Morgan, said dual circulation was the right strategy for China to pursue following a "remarkable V-shaped recovery" from the pandemic.

"The stage will be set at the start of the next five-year plan for a continuation of efforts to transform the economy towards sustained, high-quality growth," she said.

Mr Roach, a former chief economist and Asia chairman of the investment bank Morgan Stanley, said the dual-circulation strategy has the potential to deliver China's long-term economic goals.

As a modern advanced economy, China "will be successful in drawing on dual circulation as the means towards realising its key strategic objectives", he said.

Converting currency put on fast track

By XING YI

Shanghai has become the first city in China to adopt a policy that simplifies currency exchange services for foreigners.

Foreigners who work in companies registered in Pudong district will no longer need to bring documents such as employment contracts, proof of income and tax completion certificates when they want to exchange their money in Chinese yuan to foreign currencies.

For the service, all they need is a fast pass, which they can apply for at the district's foreigner work permit office by filling out a Fast Pass on Foreign Talents Remuneration Foreign Exchange, which includes personal, employment and tax information.

With the fast pass, foreigners can buy foreign exchange at all banks in Shanghai without further verification an unlimited number of times as long as the total purchases do not exceed their legal income.

The State Administration of Foreign Exchange's Shanghai branch said the policy will be gradually applied across the city, and it will direct banks to develop related e-banking functions.

The pilot policy, which was announced at the 2020 Shanghai Global Talents Innovation and Entrepreneurship Summit, is the latest move by the city to improve the working environment for foreigners to attract talent from around the world.

> **215,000**
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> foreigners were working in Shanghai in 2019, more than any other city on the Chinese mainland, according to the municipal science and technology commission

In September the city made it easier for foreigners who come to Shanghai to start a business.

Before, they had to first be employed by a company to apply for a work permit. Now, the revised policy includes business incubators as eligible entities to help foreign entrepreneurs with projects obtain work permits.

Kazunori Kurosawa and Hiroaki Osaka, who focus on imaging sensor technology, became the first to get their work permits with the help of Cantor Jungle Incubator at the summit on December 24.

More than 10,000 high-level positions for hiring and a list of key technology projects submitted by 867 companies that need talent were also made public at the summit. The total investment of the projects exceeded 4bn yuan ($612m).

Wu Ping, president of the Shanghai Overseas Talents Development Association, said, "Talent is very important for the development of a country. I hope Shanghai can also become a destination for global talent."

The municipal science and technology commission, which oversees the issuing of foreigner work permits, said 215,000 foreigners were working in Shanghai in 2019, more than any other city on the Chinese mainland.

GREYING SOCIETY AN IRRESISTIBLE HONEY POT FOR PENSION FIRMS

By ZHOU LANXU

The Covid-19 pandemic has forced China's financial system to tackle immediate challenges including the very survival of some businesses. But top regulators have not ignored a longer term issue that may be even more pressing: the sustainability of the pension system.

As efforts to reform its gigantic pension system has become a must-do for China with its aging population, foreign financial institutions are preparing to take a seat at the table.

Foreign retirement product managers, due to their rich global experience and China's continuous opening-up agenda, are well-positioned to thrive in the country's personal pension market, which is on the verge of explosive growth, experts said.

It is urgent that China develop a third-pillar pension system, formed by personal retirement products and complementing the current State-run first pillar and the employment-based second pillar, said Guo Shuqing, chairman of the China Banking and Insurance Regulatory Commission.

Mr Guo urged faster development of the third-pillar pension system on at least three different public occasions last year, pledging to unify standards of retirement-related financial products, introduce more pilot projects and encourage the share of retirement funds in the capital market to catch up with the global average.

"Compared with many countries, the third pillar has seen relatively slow growth in China, taking up a low proportion within the whole pension system and providing far from adequate support for retirement funding," Mr Guo said at the Annual Conference of Financial Street Forum 2020 in Beijing in October.

Over the past five years the country has stepped up efforts to establish the regulatory framework for the third-pillar pension system. In 2018 China introduced its tax-deferred personal pension insurance pilot programme, which offers tax incentives.

About 47,000 clients had already bought personal tax-deferred pension insurance products worth a total premium of 1.24bn yuan ($188.7m) by the end of 2019, the Annual Report on the Development of China's Aging Finance (2020) said.

Meanwhile, 1.07m individual accounts were subscribed to, involving 22.83bn yuan worth of pension target investment funds at the end of April, the report said.

However, the scale is still limited compared with the first-pillar system, which involves nearly 1bn people.

First-pillar pensions amounted to 8.05tn yuan in 2018, accounting for 79 per cent of the country's total pension system. The remaining 21 per cent was taken up by the second-pillar employment-based pensions, according to a report issued jointly by KPMG and China Health and Elderly Care Group Co Ltd in July.

This first pillar-dominated structure must be reformed in the coming decades, experts said, as government-run pensions rely on contributions from the working-age population to fund the retired, while the size of the former is destined to shrink in relation to the latter amid rapid demographic changes.

The KPMG report estimated that by 2030 the value of personal retirement products will amount to 46tn yuan and represent 40.7 per cent of the total pension system, indicating a compound annual growth rate of as much as 33 per cent from 2018 to 2030.

This solid growth potential is attracting global insurers and asset managers.

At least nine of the 23 insurers licensed to sell tax-deferred personal pension insurance products are joint ventures. In 2019 China approved the establishment of the country's first joint-venture pension insurance company, owned by Heng An Standard Life.

Participants at the Expo For Elders in Nanjing, Jiangsu province, on September 25. WANG LUXIAN / FOR CHINA DAILY

"Foreign institutions are upbeat about China's retirement income market and are eager to enter the market," said Zhou Xing, PwC insurance industry leader for the Chinese mainland.

Rich experience in retirement product management overseas is likely to help foreign insurers take a considerable share of China's private retirement income market over the long term, Mr Zhou said on the sidelines of a forum co-hosted by Zhongbao Insurance Asset Registration and Exchange Co Ltd and Peking University's Guanghua School of Management.

"Differing from other insurance products, retirement product management relies less on the network of offline branches and more on deep expertise in long-term investment and risk management, which is exactly the advantage enjoyed by foreign insurers," Mr Zhou said.

Asset management giants are vying with each other in the retirement investment fund market. Mutual fund joint ventures invested by foreign institutions such as Credit Suisse, Schroders and Invesco have introduced retirement target funds, and others such as BlackRock and Fidelity International are seeking to take part as wholly owned businesses.

BlackRock, which manages more than $7tn in assets on behalf of clients with more than two-thirds directly retirement related, is excited about helping address the retirement challenge facing China, Geraldine Buckingham, BlackRock's chair for the Asia-Pacific region, said at a recent forum.

The company has been approved to set up China's first wholly foreign-owned mutual fund manager in August after the country lifted foreign ownership caps in the sector in April.

Fidelity is expanding its team of research and investment staff in China to issue retirement-related publicly offered products once getting licensed, said Daisy Ho, Fidelity International's head of China operations.

It applied to set up a wholly owned mutual fund unit in China in May and is awaiting authorisation. In designing its publicly offered products, Fidelity will draw on its overseas management expertise as well as its experience of serving as the research consultant of China Asset Management Co Ltd, a domestic fund manager, Ms Ho said.

Tao Jin, a senior researcher at Suning Institute of Finance, said policy support will be another key factor helping boost development of foreign institutions in China's personal pension market.

The Chinese government is expected to further encourage the participation of foreign competitors as it will help enrich products and offer domestic counterparts more opportunities to learn advanced pension management expertise, he said.

In July 2019 China announced it would allow foreign firms to establish or hold stakes in pension fund management companies. Though the first foreign company of this kind has yet to emerge, the country has approved the establishment of the first pension insurance joint venture and the first wholly foreign-owned life insurer, reassuring the world of its continuous efforts to open the sector.

Mr Tao said that despite foreign insurers' advantages in investment expertise, they still need to deal with weak links such as the lack of innovative product designs and strengthen their network of branches and agencies to thrive in the Chinese pension market.

Experts also said multiple policy incentives are needed to more quickly unleash the great potential of the personal pension market, especially as progress made by the tax-deferred pension insurance pilot programme has fallen short of expectations.